

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name City of Ionia- Sewer Disposal System	County Ionia
Fiscal Year End June 30, 2007	Opinion Date November 16, 2007	Date Audit Report Submitted to State December 5, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

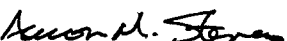
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe) N/A	<input checked="" type="checkbox"/>	N/A	
Certified Public Accountant (Firm Name) Abraham & Gaffney, P.C.		Telephone Number (517) 351-6836	
Street Address 3511 Coolidge Road, Suite 100		City East Lansing	State MI
Zip 48823			
Authorizing CPA Signature 		Printed Name Aaron M. Stevens, CPA	
		License Number 1101024055	

**Ionia Area Sewage Disposal System
Ionia, Michigan**

FINANCIAL STATEMENTS

June 30, 2007

Ionia Area Sewage Disposal System

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INDEPENDENT AUDITOR'S REPORT

Ionia Area Sewage Disposal System
Ionia, Michigan

We have audited the accompanying basic financial statements of the Ionia Area Sewage Disposal System as of and for the year ended June 30, 2007 and 2006, as listed in the table of contents. These basic financial statements are the responsibility of the Ionia Area Sewage Disposal System's management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Ionia Area Sewage Disposal System as of June 30, 2007 and 2006, and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, as identified in the table of contents, is not a required part of the basic financial statements but is supplementary information required by the accounting principals generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Ionia Area Sewage Disposal System's basic financial statements. The other supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

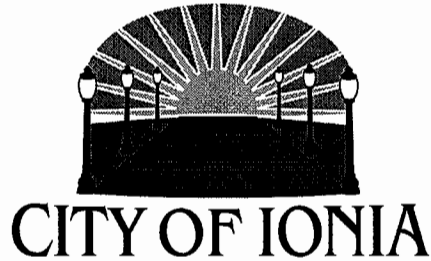
Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

November 16, 2007

IONIA AREA SEWAGE DISPOSAL SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS



The intent of the management discussion and analysis is to provide highlights of the Agency's financial activities for the Fiscal Year ended June 30, 2007. Readers are encouraged to read this section in conjunction with the transmittal letter and the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- ❖ **Net Assets:** The assets of the Sewage Disposal System (SDS) exceeded its liabilities by \$8.23 million. Of this amount, \$773,224 (unrestricted net assets) may be used to meet the SDS's ongoing obligations to customers and creditors. The total net assets increased by \$108,089.
- ❖ **Operating Revenues and Expenses:** Revenues were about equal for the fiscal year ending June 30, 2007 compared to the fiscal year ending June 30, 2006. Administrative expenses were slightly higher than the previous fiscal year due to increased utility expenses. Lift station expenses were about double from FY05-06 due to improvements in practices for allocating staff time spent on lift station maintenance and other tasks.
- ❖ **Non-Operating Revenues and Expenses:** Investment income was \$3,590 more than a year ago from the long term investment earnings. Contributions from local units decreased by \$99,893 due to increases in other revenue sources.
- ❖ **Deferred Revenue:** In November 2001, Easton Township decided to have the City of Ionia bill their sewer customers for actual usage instead of the Township billing them a flat fee. At this point, the Township also chose to pay off their portion of existing debt based on their previous percentage of ownership. The Township paid \$203,270, which was determined to be their percentage of total debt on Oct 22, 2002. This amount was set up as restricted cash and deferred revenue. It is shown as earned revenue as each semi-annual payment is made on existing debt. Interest earned on this restricted cash is kept separate and will be recognized as the payments are recorded.

OVERVIEW OF THE FINANCIAL STATEMENTS

The annual report includes this management's discussion and analysis report, the independent auditor's report and the basic financial statement of the Sewage Disposal System, which include notes that explain in more detail some of the information in the financial statements.

As a municipal wastewater treatment plant, the Ionia Area Sewage Disposal System engages in primarily enterprise operations in various separate and distinct activities. These activities include but are not limited to: 1) acquisition and construction of collection and plant facilities and treatment of domestic and industrial wastewater; 2) maintenance of sanitary sewers; 3) lift station operation and maintenance. The SDS was created by the City of Ionia, and Berlin, Easton, Ionia and Orange Townships to provide for the collection, treatment and disposal of sewage for the benefit of their constituents. The service area includes all of the City of Ionia and the more intensely developed areas of the townships adjacent to the City.

IONIA AREA SEWAGE DISPOSAL SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS

REQUIRED FINANCIAL STATEMENTS

The financial statements report information of the Sewage Disposal System (SDS) using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The Statement of Net Assets includes all of the SDS's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to SDS creditors (liabilities). It also provides the basis for evaluating the capital structure of the SDS and assessing the liquidity and financial flexibility of the SDS.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets. This statement measures the success of the SDS's operations over the past year and can be used to determine whether the SDS has successfully recovered all of its costs through its user fees and other charges, profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments and net changes in cash resulting from operations, investing, and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

FINANCIAL ANALYSIS OF THE SDS

The Statement of Net Assets and the Statement of Activities provide information to determine how the SDS did financially during FY 06-07. The net assets, or the difference between assets and liabilities, and the changes in them can indicate whether financial health is improving or deteriorating overtime. However, other non-financial factors such as changes in economic conditions, population growth, and new or changed government legislation also need to be considered in determining the SDS financial health.

NET ASSETS

The SDS's Condensed Statement of Net Assets and Statement of Revenue, Expenses and Changes in Fund Net Assets are presented in the following Tables. A comparative analysis of data is presented from the fiscal year of 2005-2006.

TABLE 1
CONDENSED STATEMENT OF NET ASSETS

	<u>As of 6/30/2006</u>	<u>As of 6/30/2007</u>
Current and Other Assets	\$ 1,464,758	\$ 1,218,941
Capital Assets	<u>10,664,419</u>	<u>10,583,120</u>
Total Assets	12,129,177	11,802,061
Current Liabilities	638,031	625,155
Noncurrent Liabilities	<u>3,368,622</u>	<u>2,946,293</u>
Total Liabilities	4,006,653	3,571,448
Invested in Capital Assets		
Net of Related debt	6,952,919	7,267,120
Restricted	429,139	190,269
Unrestricted	<u>740,466</u>	<u>773,224</u>
Total Net Assets	<u>\$ 8,122,524</u>	<u>\$ 8,230,613</u>

IONIA AREA SEWAGE DISPOSAL SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS

TABLE 2
CONDENSED STATEMENT OF REVENUE, EXPENSES,
AND CHANGES IN NET ASSETS

	<u>FY 05-06</u>	<u>FY 06-07</u>
Operating Revenues	\$ 1,088,560	\$ 1,187,666
Non-operating Revenues	<u>575,651</u>	<u>479,348</u>
Total Revenues	1,664,211	1,667,014
 Depreciation Expense	 340,906	 358,736
Other Operating Expense	1,012,289	1,036,776
Non-operating Expense	<u>176,755</u>	<u>163,413</u>
Total Expenses	<u>1,529,950</u>	<u>1,558,925</u>
 Changes in Net Assets	 134,261	 108,089
 Beginning Net Assets	 <u>7,988,263</u>	 <u>8,122,524</u>
Ending Net Assets	<u>\$ 8,122,524</u>	<u>\$ 8,230,613</u>

While the Statement of Net Assets shows the change in financial position of net assets, the Statement of Revenues, Expenses and Changes in Net Assets shows how total revenues and expenses increased the net assets. Operating revenues of \$1,187,666, less operating expenses of \$1,036,776 show that the day to day operations of the treatment plant are being met by user fees. The Depreciation expense of \$358,736 is a non-cash expense, which represents the reduction in the value of the facility and system.

The rate charged to municipal users is computed by taking actual operating costs and adding an \$85,000 annual replacement reserve to get a total cost that is divided by the actual usage billed to each municipality. The Annual Replacement reserve is used to pay for capital improvements such as computer upgrades, plant improvements and equipment. Participating municipalities are also billed separately for the actual debt payment due during the fiscal year. This is again computed based on usage by the municipalities.

BUDGETARY HIGHLIGHTS

The Sewage Disposal System is an enterprise fund. The City of Ionia is not required to adopt an annual budget. However, the City Council does adopt an annual Operating Budget and a five-year Capital Plan following a public hearing. This budget is also presented to the Ionia County Board of Public Works and the Boards of Trustees of Berlin, Easton and Ionia Townships, after Council's approval. The Operating Budget includes proposed expenses and the means of financing them. The SDS's operating budget remains in effect but can be revised with City Council approval prior to the fiscal year end.

The capital plan and annual capital expenditures are also included in the budget. The depreciation expense is recorded in the budget but is not covered by revenues. Therefore the budget is allowed to show a net loss for the year. A replacement reserve line item is budgeted to allow for capital improvements. This amount is added to the operating costs as explained in the previous section.

IONIA AREA SEWAGE DISPOSAL SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS

The cost of the Treatment Plant is allocated to the constituent municipalities. Operating costs were similar to last year and billable flow was slightly less than last year. Rates to the municipalities went from \$1.56/1000 to \$1.68/1000 gallons. The actual increase in revenues from the municipalities was not as much as budgeted, based on actual costs and billable flow. The Operating Supplies variances from amended budget are based on purchasing only when needed. The non-operating revenues and expenses variances are due to budget processes which are set up to show Balance Sheet activity, such as Bond indebtedness, payment of principal on debt, purchases of capital items and improvements to the system that are tracked through the Capital Projects fund.

CAPITAL ASSETS

The SDS has a five year capital improvement plan that includes continued improvements for controls, radios, lift station, and exterior work on the plant. Future projects that need to be bonded for and will be evaluated further include air conditioning installation and additional storage at the facility. The increase in structures, machinery & equipment, and furniture & fixtures is from additions to the system less recognizing plant asset disposals for obsolete equipment or depreciation.

TABLE 4
CAPITAL ASSETS

	<u>FY 05-06</u>	<u>FY 06-07</u>
Sewer Plant and Improvements	\$ 16,250,688	\$ 16,483,979
Machinery and Equipment	<u>198,478</u>	<u>242,624</u>
Sub-total	16,449,166	16,726,603
Less: Accumulated Depreciation	<u>(5,784,757)</u>	<u>(6,143,483)</u>
Net Property and Equipment	<u>\$ 10,664,419</u>	<u>\$ 10,583,120</u>

DEBT ADMINISTRATION

Since the SDS does not levy a millage it does not generate property tax revenue. The system charges each of the municipalities for the purpose of funding the debt service on bond issues from 1976 - 2002 based on billable flow within the participating municipalities. Revenue bond indebtedness outstanding at June 30, 2007 amounted to \$3,316,000. More detailed information about the SDS's long-term liabilities is presented in note F to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The amount charged to the participating municipalities is adjusted each fiscal year based on actual costs and billable flows. When the billable flow volume is higher the cost per thousand gallons of sewage can be lower. Conversely, when the actual expenses for the year are higher the cost per thousand gallons can be higher.

During the course of the next fiscal year the constituent municipalities of the Ionia Area Sewage Disposal System (SDS) will be working with the Ionia County Board of Public Works in assessing options for creating a successor owner to the Board of Public Works of the SDS. With the bonds issued to finance the construction of the expanded wastewater plant to be paid off in 2010, the Board of Public Works will no longer own the SDS. In addition to identifying options for a successor owner, the constituent municipalities will be assessing options for Orange Township to acquire excess capacity in the plant. Although a party to the original agreement which facilitated the expansion of the plant, Orange Township did not reserve capacity. Increased development in Orange Township has prompted officials to express interest in reserving capacity for future use by the Township. A study conducted in early 2007 revealed that there is sufficient unused capacity to meet both current user's needs over the next twenty year period while setting aside capacity for Orange Township. The constituent municipalities plan to have a successor owner and a process for Orange Township to follow to acquire capacity in the plant in place prior to the pay-off of the expansion bonds in 2010.

IONIA AREA SEWAGE DISPOSAL SYSTEM MANAGEMENT'S DISCUSSION AND ANALYSIS

The City's biggest customer within the SDS is the State of Michigan. The State has committed to paying for 69.44% of the 1976 and 1990 bonds which allowed for improving the system to meet the demands of the prisons served by the SDS. This commitment has helped to keep the debt costs, which are passed on to the individual customers, at a minimum.

TABLE 5
RATES HISTORY

07/01/1999-06/30/2000	\$ 1.088 per 1,000 gallons
07/01/2000-06/30/2001	1.134 "
07/01/2001-06/30/2002	1.262 "
07/01/2002-06/30/2003	1.333 "
07/01/2003-06/30/2004	1.406 "
07/01/2004-06/30/2005	1.440 "
07/01/2005-06/30/2006	1.560 "
07/01/2006-06/30/2007	1.680 "

CONTACT INFORMATION

This financial report is designed to provide our readers with an overview of the City's finances. If there are questions about this report, please contact Robin Marhofer, Finance Director, at (616) 527-4170, extension 120; or via e-mail: rmarhofer@ci.ionia.mi.us, or Jason Eppler, City Manager, at extension 223, or via e-mail: jeppler@ci.ionia.mi.us.

BASIC FINANCIAL STATEMENTS

Ionia Area Sewage Disposal System

STATEMENTS OF NET ASSETS

June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 233,475	\$ 276,561
Accounts receivable	2,290	6,129
Due from other governmental units - local	788,257	747,304
Inventory	<u>4,650</u>	<u>5,625</u>
Total current assets	1,028,672	1,035,619
Noncurrent assets		
Cash - restricted	131,313	139,600
Deposit with county	58,956	289,539
Capital assets not being depreciated	23,557	566,960
Capital assets, net of accumulated depreciated	<u>10,559,563</u>	<u>10,097,459</u>
Total noncurrent assets	<u>10,773,389</u>	<u>11,093,558</u>
TOTAL ASSETS	11,802,061	12,129,177
LIABILITIES		
Current liabilities		
Accounts payable	21,601	35,223
Accrued liabilities	7,968	12,300
Due to other governmental units - local	17,489	37,867
Deferred revenue	126,999	139,600
Current portion of accrued sick and vacation pay	20,348	17,541
Current portion of long-term debt	<u>430,750</u>	<u>395,500</u>
Total current liabilities	625,155	638,031
Noncurrent liabilities		
Accrued sick and vacation pay	61,043	52,622
Noncurrent portion of long-term debt	<u>2,885,250</u>	<u>3,316,000</u>
Total noncurrent liabilities	<u>2,946,293</u>	<u>3,368,622</u>
TOTAL LIABILITIES	<u>3,571,448</u>	<u>4,006,653</u>
NET ASSETS		
Invested in capital, net of related debt	7,267,120	6,952,919
Restricted for debt service	131,313	139,600
Restricted for capital projects	58,956	289,539
Unrestricted	<u>773,224</u>	<u>740,466</u>
TOTAL NET ASSETS	<u>\$ 8,230,613</u>	<u>\$ 8,122,524</u>

See accompanying notes to financial statements.

Ionia Area Sewage Disposal System

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

Years Ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
OPERATING REVENUES		
Sales and charges for services	\$ 1,168,588	\$ 1,060,959
Other	<u>19,078</u>	<u>27,601</u>
TOTAL OPERATING REVENUES	1,187,666	1,088,560
OPERATING EXPENSES		
Administrative	397,598	388,594
Treatment plant	609,031	605,188
Lift station	30,147	18,507
Depreciation	<u>358,736</u>	<u>340,906</u>
TOTAL OPERATING EXPENSES	<u>1,395,512</u>	<u>1,353,195</u>
OPERATING LOSS	(207,846)	(264,635)
NONOPERATING REVENUES (EXPENSES)		
Interest revenue	53,554	49,964
Contributions from local units	425,794	525,687
Interest expense	<u>(163,413)</u>	<u>(176,755)</u>
TOTAL NONOPERATING REVENUES	<u>315,935</u>	<u>398,896</u>
CHANGE IN NET ASSETS	108,089	134,261
Net assets, beginning of year	<u>8,122,524</u>	<u>7,988,263</u>
Net assets, end of year	<u>\$ 8,230,613</u>	<u>\$ 8,122,524</u>

See accompanying notes to financial statements.

Ionia Area Sewage Disposal System

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2007 and 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 1,137,951	\$ 1,312,383
Cash paid to vendors	(325,637)	(500,066)
Cash paid to employees	(281,273)	(292,946)
Cash paid for employee benefits	(225,412)	(172,669)
NET CASH PROVIDED BY OPERATING ACTIVITIES	305,629	346,702
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Contributions from local units	425,794	525,687
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Bond proceeds received	-	150,000
Capital purchases	(277,437)	(424,693)
Payment of borrowing	(395,500)	(485,500)
Interest expense	(163,413)	(176,755)
NET CASH (USED) BY FINANCING ACTIVITIES	(836,350)	(936,948)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest revenue	53,554	49,964
NET (DECREASE) IN CASH AND CASH EQUIVALENTS DURING YEAR	(51,373)	(14,595)
Cash and cash equivalents, beginning of year	416,161	430,756
Cash and cash equivalents, end of year	<u>\$ 364,788</u>	<u>\$ 416,161</u>

Ionía Area Sewage Disposal System

STATEMENTS OF CASH FLOWS - CONTINUED

Years Ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating loss	\$ (207,846)	\$ (264,635)
Adjustments to reconcile operating loss to net cash provided by operating activities		
Depreciation	358,736	340,906
(Increase) decrease in accounts receivable	3,839	(2,932)
(Increase) decrease in due from other governmental units	(40,953)	41,395
(Increase) decrease in inventory	975	(350)
Decrease in deposits with county	230,583	196,355
Increase (decrease) in accounts payable	(13,622)	3,446
Increase (decrease) in accrued liabilities	(4,332)	4,936
Increase (decrease) in due to other governmental units	(20,378)	37,867
(Decrease) in deferred revenue	(12,601)	(11,995)
Increase in accrued sick and vacation pay	<u>11,228</u>	<u>709</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 305,629</u>	<u>\$ 346,702</u>

See accompanying notes to financial statements.

Ionia Area Sewage Disposal System
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Ionia Area Sewage Disposal System (System) was created by contractual agreement between the City of Ionia and Ionia, Berlin, Easton, and Orange Townships. The purpose of the System is to construct, improve, enlarge, operate, and maintain all sanitary sewers, storm sewers, combined sanitary and storm sewers, plants, and works used in connection with the collection treatment or disposal of sewage for the benefit of the constituent municipalities.

The allocation of costs of the SDS to the constituent municipalities is based on usage of the system as measured by billable flow. During 1996, the City of Ionia began to directly bill Ionia Township SDS customers. As a result, the City's allocation of costs includes the portion of costs that had been charged to Ionia Township in the past. On December 1, 2001, the City began to directly bill Easton Township SDS customers for operating costs and fixed asset reserves. As a result, the City's allocation of costs includes a portion of costs that would have been charged to Easton Township in the past. The Township continues to make contributions to SDS to fund their portion of the debt service requirements.

Funding of operating costs and the capital asset reserve as based on annual participant usage is currently as follows:

City of Ionia	92.68%
Ionia Township	4.03%
Berlin Township	3.29%

Funding of debt service as based on annual participant usage is currently as follows:

City of Ionia	88.71%
Ionia Township	4.49%
Berlin Township	3.54%
Easton Township	3.26%

1. Reporting Entity

The accompanying financial statements are exclusive presentations of the financial condition and results of operations of the Ionia Area Sewage Disposal System. The System is considered a "joint venture" of the constituent municipalities.

2. Basis of Presentation

The operations of the System are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenses. The System's resources are allocated to and accounted for in the individual fund based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The fund in the financial statements in this report is described as follows:

PROPRIETARY FUND

Enterprise Fund - This fund is used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

The SDS applies all GASB pronouncements as well as Financial Accounting Standards Board (FASB) statements and interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements. The SDS has elected not to follow FASB pronouncements issued after November 30, 1989 to its business-type activities and enterprise fund.

Ionia Area Sewage Disposal System
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- CONTINUED

3. Measurement Focus

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The proprietary fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the Statement of Net Assets. Fund equity (i.e., total net assets) is segregated into invested in capital (net of related debt) and unrestricted components. Proprietary fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

4. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The proprietary fund is accounted for using the accrual basis of accounting. The revenues are recognized when they are earned, and the expenses are recognized when they are incurred.

5. Budgets and Budgetary Accounting

The City of Ionia operates, administers, and maintains the SDS on behalf of the City and Townships. The annual budget of the SDS is prepared by the City and adopted by City Council. The proposed budget and allocation of costs are submitted to the City and Townships at least sixty (60) days prior to the beginning of each fiscal year. The Townships have thirty (30) days to advise the City of any objections to the proposed budget and allocation. Objections that cannot be resolved are brought before a review board consisting of one (1) appointed member from each constituent municipality and the City Board of Public Works. All actions of the review board are made by a majority vote.

6. Cash and Cash Equivalents

Cash equivalents consist of the System's portion of the City of Ionia's pooled cash accounts. These pooled accounts consist of various checking, savings, certificates of deposit and investment trust funds.

7. Due From Other Governmental Units

Due from other governmental units consists of amounts due from constituent municipalities for debt service and operating costs and amounts due from a component unit of the City of Ionia.

8. Inventories

Inventories in the Enterprise Fund consist of operating materials and supplies, which are stated at cost on a first-in/first-out basis.

9. Capital Assets and Long-Term Liabilities

Capital assets, which include facilities and equipment, are capitalized at total acquisition cost, provided such cost exceeds \$5,000 and the expected useful life of the asset is more than one year. Depreciation is recorded on all depreciable capital assets on a straight-line basis over the estimated useful lives of the assets.

Ionia Area Sewage Disposal System
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

9. Capital Assets and Long-Term Liabilities - continued

The estimated useful lives are:

Sewer plant and improvements	50 years
Machinery and equipment	3 - 5 years

Long-term liabilities are recognized in the basic financial statements when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

10. Accrued Vacation and Sick Leave

The System's employees are granted vacation and sick leave in varying amounts. In the event of termination, an employee is paid for certain portions of unused accumulated vacation and sick time. This amount has been recorded as a long-term liability in the Proprietary Fund.

11. Comparative Data

Comparative data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the financial position, operations, and cash flows.

NOTE B: CASH AND CASH EQUIVALENTS

In accordance with Michigan Compiled Laws, the System is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government, and which maintains a principal office or branch office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belong to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or Federal agency obligations repurchase agreements.
5. Bankers acceptances of United States Banks.
6. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

Ionia Area Sewage Disposal System
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits, if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

Deposits

There is a custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the System's deposits may not be returned to it. A portion of the cash and cash equivalents of the System are covered by Federal deposit insurance along with other deposits of the City of Ionia, limited to \$100,000 in total deposits for each bank customer. Since the City maintains these funds in pooled accounts it is not practical to determine what portion of the System's funds are insured.

As of June 30, 2007, the City had funds on deposit with Ionia County of \$58,956 for construction projects and payment of debt service. This amount is considered to be uninsured and uncollateralized.

Credit Risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's).

Interest Rate Risk

The System will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by:

Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity, and investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools and limiting the average maturity of the portfolio.

Concentration of credit risk

The System will minimize credit risk, which is the risk of loss due to the failure of the security issuer or backer, by:

Limiting investments to the types of securities listed in the "Authorized Investments" section; pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the System will do business in accordance with the "Authorized Institutions" section; and diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized.

NOTE C: CASH - RESTRICTED

The restricted cash as of June 30, 2007, of \$131,313 is to be used for future debt payments by the System.

Ionia Area Sewage Disposal System
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE D: DUE FROM OTHER GOVERNMENTAL UNITS - LOCAL

A summary of amounts due from other governmental units - local at June 30, 2007 follows:

Due from the City of Ionia LDFA	\$ 742,382
Due from Berlin Township	16,296
Due from City of Ionia	<u>29,579</u>
	<u>\$ 788,257</u>

NOTE E: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007, was as follows:

	<u>Balance July 1, 2006</u>	<u>Additions/ Reclassifications</u>	<u>Deletions/ Reclassifications</u>	<u>Balance June 30, 2007</u>
Business-type activities:				
Capital assets not being depreciated				
Construction in progress	\$ 566,960	\$ 129,055	\$ 690,163	\$ 5,852
Land	<u>-</u>	<u>17,705</u>	<u>-</u>	<u>17,705</u>
Total capital assets not being depreciated	566,960	146,760	690,163	23,557
Capital assets being depreciated				
Sewer plant and improvements	15,683,728	776,694	-	16,460,422
Machinery and equipment	<u>198,478</u>	<u>44,146</u>	<u>-</u>	<u>242,624</u>
Totals at historical cost	15,882,206	820,840	-0-	16,703,046
Less accumulated depreciation for:				
Sewer plant and improvements	5,665,313	323,204	-	5,988,517
Machinery and equipment	<u>119,434</u>	<u>35,532</u>	<u>-</u>	<u>154,966</u>
Total accumulated depreciation	<u>5,784,747</u>	<u>358,736</u>	<u>-0-</u>	<u>6,143,483</u>
Net capital assets being depreciated	<u>10,097,459</u>	<u>462,104</u>	<u>-0-</u>	<u>10,559,563</u>
Capital assets, net	<u>\$10,664,419</u>	<u>\$ 608,864</u>	<u>\$ -0-</u>	<u>\$10,583,120</u>

Depreciation expense in the amount of \$358,736 was reported for the year ended June 30, 2007.

Ionia Area Sewage Disposal System
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE F: LONG-TERM DEBT

The following is a summary of changes in long-term debt (including current portion) of the System for the year ended June 30, 2007:

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007	Amounts Due Within One Year
1990 General Obligation Bonds	\$ 2,005,000	\$ -	\$ 385,000	\$ 1,620,000	\$ 395,000
2001 Water & Sewer Improvement Bonds	346,500	-	10,500	336,000	15,750
2004 General Obligation Bonds	840,000	-	-	840,000	15,000
2005 General Obligation Bonds	370,000	-	-	370,000	2,500
2006 Water & Sewer Improvement Bonds	150,000	-	-	150,000	2,500
Compensated Absences	<u>70,163</u>	<u>79,895</u>	<u>68,667</u>	<u>81,391</u>	<u>20,348</u>
	<u>\$ 3,781,663</u>	<u>\$ 79,895</u>	<u>\$ 464,167</u>	<u>\$ 3,397,391</u>	<u>\$ 451,098</u>

Significant details regarding outstanding long-term debt (including current portion) are presented below:

\$6,382,251 1990 Limited Tax General Obligation Bonds dated August 1, 1990, due in annual installments ranging from \$385,000 to \$415,000 through October 1, 2010, with interest at 2.00 percent, payable semi-annually. \$ 1,620,000

\$3,600,000 2001 Water and Sewer Improvement Bonds dated August 1, 2001 due in annual installments ranging from \$150,000 to \$300,000 through August 1, 2020, with interest ranging from 4.00 percent to 5.00 percent, payable semi-annually. The Bonds were issued with the full faith and credit of the City of Ionia. The City is responsible for paying 89.5 percent of the debt and the system is responsible for paying 10.5 percent of the debt. 336,000

\$4,200,000 2004 Limited Tax General Obligation Bonds dated April 23, 2004, due in annual installments ranging from \$75,000 to \$300,000 through August 1, 2029, with interest ranging from 3.00 percent to 4.60 percent, payable semi-annually. The City is responsible for paying 80 percent of the debt and the system is responsible for paying 20 percent of the debt. 840,000

\$3,700,000 2005 Limited Tax General Obligation Bonds dated May 27, 2005, due in annual installments ranging from \$25,000 to \$27,500 through August 1, 2029, with interest ranging from 3.50 percent to 4.50 percent, payable semi-annually. The City is responsible for paying 90 percent, which leaves the system responsible for paying 10 percent of the debt. 370,000

\$1,500,000 2006 Water and Sewer Improvement Bonds dated May 9, 2005, due in annual installments ranging from \$25,000 to \$100,000 through August 1, 2029, with interest ranging from 4.60 percent to 6.00 percent, payable semi-annually. The Bonds were issued with the full faith and credit of the City of Ionia. The City is responsible for paying 90 percent of the debt and the system is responsible for paying 10 percent of the debt. 150,000

\$ 3,316,000

Ionia Area Sewage Disposal System
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE F: LONG-TERM DEBT - CONTINUED

Compensated Absences

Individual employees have vested rights upon termination of employment to receive payments for unused vacation. The dollar amounts of these vested rights have been recorded in the statement of net assets. They amount to approximately \$81,391 at June 30, 2007.

The annual requirements to pay the debt principal and interest outstanding for the bonds payable are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 430,750	\$ 166,842
2009	438,250	156,144
2010	450,750	145,245
2011	463,500	133,967
2012	48,500	126,575
2013-2017	333,500	556,985
2018-2022	425,750	402,599
2023-2027	435,000	228,562
2028-2030	<u>290,000</u>	<u>38,559</u>
	<u>\$ 3,316,000</u>	<u>\$ 1,955,478</u>

NOTE G: RISK MANAGEMENT

The System is incorporated into the City of Ionia's insurance coverage and as a result is protected from losses. The City participates in a pool, the Michigan Municipal Workers' Compensation Fund, with other municipalities for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The System has not been informed of any special assessments being required.

The System also participates in a State pool, the Michigan Municipal Liability and Property Pool, with other municipalities for property, liability, bonding, and casualty losses. The pool is organized under Public Act 138 of 1982, as amended. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The System has not been informed of any special assessments being required.

OTHER SUPPLEMENTARY INFORMATION

Ionia Area Sewage Disposal System

SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN
FUND NET ASSETS - AMENDED BUDGET AND ACTUAL

Year Ended June 30, 2007

With Actual Amounts for the Year Ended June 30, 2006

	Amended Budget	2007 Actual	Variance Favorable (Unfavorable)	2006 Actual
OPERATING REVENUES				
Sales and charges for services				
City of Ionia	\$ 1,112,502	\$ 1,126,762	\$ 14,260	\$ 1,023,955
Berlin Township	30,000	41,826	11,826	37,004
Other	20,000	19,078	(922)	27,601
TOTAL OPERATING REVENUES	1,162,502	1,187,666	25,164	1,088,560
OPERATING EXPENSES				
Administrative				
Salaries	46,500	44,806	1,694	47,338
Payroll taxes and fringe benefits	44,120	24,694	19,426	32,356
Insurance	66,500	58,993	7,507	62,302
Contractual and professional	17,500	28,644	(11,144)	32,477
Administrative	96,457	109,207	(12,750)	99,131
Telephone	5,000	5,087	(87)	4,900
Transportation and training	1,600	1,996	(396)	2,907
Public utilities	117,500	124,126	(6,626)	102,649
Depreciation	50,000	358,736	(308,736)	340,906
Bond issuance costs	-	-	-0-	4,526
Capital outlay	20,000	-	20,000	-
Miscellaneous	100	45	55	8
Total administrative	465,277	756,334	(291,057)	729,500
Treatment plant				
Salaries	235,000	233,334	1,666	245,707
Payroll taxes and fringe benefits	115,000	130,785	(15,785)	138,758
Contractual and professional	92,500	99,136	(6,636)	54,504
Building repair and maintenance	-	2,228	(2,228)	-
Operating supplies	69,000	62,635	6,365	86,315
Gas and oil	6,500	7,326	(826)	6,818
Chemicals	75,000	73,587	1,413	73,086
Equipment rental	400	-	400	-
Miscellaneous	100	-	100	-
Total treatment plant	593,500	609,031	(15,531)	605,188

Ionia Area Sewage Disposal System

SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN
FUND NET ASSETS - AMENDED BUDGET AND ACTUAL - CONTINUED

Year Ended June 30, 2007
With Actual Amounts for the Year Ended June 30, 2006

	Amended Budget	2007 Actual	Variance Favorable (Unfavorable)	2006 Actual
OPERATING EXPENSES - CONTINUED				
Lift Station				
Salaries	\$ 17,100	\$ 14,361	\$ 2,739	\$ 4,837
Payroll taxes and fringe benefits	11,050	6,608	4,442	2,264
Contractual and professional	1,250	1,352	(102)	650
Repair and maintenance supplies	1,500	2,143	(643)	4,504
Telephone	350	205	145	313
Public utilities	4,000	5,478	(1,478)	3,928
Equipment rental	2,000	-	2,000	2,011
Total lift station	37,250	30,147	7,103	18,507
TOTAL OPERATING EXPENSES	1,096,027	1,395,512	(299,485)	1,353,195
OPERATING INCOME (LOSS)	66,475	(207,846)	324,649	(264,635)
NONOPERATING REVENUES (EXPENSES)				
Interest revenue	46,600	53,554	6,954	49,964
Contributions from local units	518,700	425,794	(92,906)	525,687
Interest expense	(657,978)	(163,413)	(494,565)	(176,755)
Contributions to local unit	(227,485)	-	(227,485)	-
TOTAL NONOPERATING REVENUES (EXPENSES)	(320,163)	315,935	(808,002)	398,896
CHANGE IN NET ASSETS	(253,688)	108,089	(483,353)	134,261
Net assets, beginning of year	8,122,524	8,122,524	-0-	7,988,263
Net assets, end of year	<u>\$ 7,868,836</u>	<u>\$ 8,230,613</u>	<u>\$ (483,353)</u>	<u>\$ 8,122,524</u>

Note: Budget data is presented for informational purposes only.

Principals

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Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS**

Members of the
Ionia Area Sewage Disposal System
Ionia, Michigan

We have audited the financial statements of the Ionia Area Sewage Disposal System, Michigan as of and for the year ended June 30, 2007, which collectively comprise the Ionia Area Sewage Disposal System's basic financial statements and have issued our report thereon dated November 16, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Ionia Area Sewage Disposal System's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Ionia Area Sewage Disposal System's internal control. Accordingly we do not express an opinion on the effectiveness of the Ionia Area Sewage Disposal System's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control over financial reporting:

2007-1 PREPARATION OF FINANCIAL STATEMENTS

Governmental entities are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). Responsibility for the financial statements of the Ionia Area Sewage Disposal System rests with the Ionia Area Sewage Disposal System's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal accounting records), and (2) reporting government-wide and fund financial statements, including the related note disclosures (i.e., external financial reporting).

2007-1 PREPARATION OF FINANCIAL STATEMENTS - CONTINUED

It has historically been common for many small to medium-sized governments to rely on the independent auditors to assist in the preparation of the government-wide and fund financial statements, as well as the related notes to the financial statements, as part of its external financial reporting process. As a result, a government's ability to prepare financial statements in accordance with GAAP has typically been based, in part, on its reliance on the independent auditors. By definition, independent auditors cannot be part of the government's internal controls.

The condition noted in the preceding paragraph exists at Ionia Area Sewage Disposal System. The cause for this condition is simply because it is more cost effective to outsource the preparation of its annual financial statements to the independent auditors than to incur the time and expense of having the employees and/or management obtain the necessary training and expertise required to perform this task internally.

As a result of this condition, the employees and/or management do not possess the qualifications necessary to prepare the Ionia Area Sewage Disposal System's annual financial statements and notes to the financial statements in accordance with GAAP. The Ionia Area Sewage Disposal System relies, in part, on the independent auditors for assistance with the preparation of annual financial statements and related notes to the financial statements in accordance with GAAP.

We recommend the Ionia Area Sewage Disposal System consider providing applicable employees with the necessary resources to allow them to fully comply with the new auditing standard. Should the Ionia Area Sewage Disposal System choose not to address this issue, management and the Board should realize that an increased risk is present in not having the proper internal control over financial reporting.

2007-2 MATERIAL JOURNAL ENTRIES PROPOSED BY AUDITORS

Material journal entries to properly account for transactions that occurred during the year were proposed by the auditors. These misstatements were not detected by the Ionia Area Sewage Disposal System's internal control over financial reporting. Statement on Auditing Standards No. 112 (SAS 112), Communicating Internal Control Related Matters Identified in an Audit, emphasizes that management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements of financial position, results of operations, and cash flows (when applicable), including the notes to financial statements, in conformity with U.S. generally accepted accounting principles. The auditor cannot be a part of internal controls.

We recommend that the Ionia Area Sewage Disposal System take steps to ensure that material journal entries are not necessary at the time future audit analysis is performed.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We believe that the significant deficiencies described above at 2007-1 and 2007-2 are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Ionia Area Sewage Disposal System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed the following instance of noncompliance:

2007-3 CAPITAL ASSETS

During the course of the audit, it was noted that the schedule supporting capital assets and depreciation and the inclusion of those amounts were not completed in a timely manner.

We recommend that these amounts be completed in a timely manner and be available for audit during the scheduled time frame for the year-end audit fieldwork.

This report is intended solely for the information and use of management of the Ionia Area Sewage Disposal System, others within the organization, and applicable departments of the State of Michigan and is not intended to be and should not be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY P.C.
Certified Public Accountants

November 16, 2007